

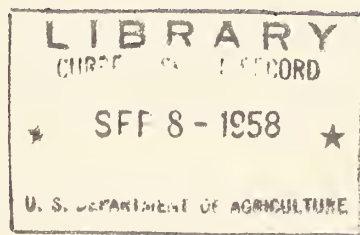
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# GAINS AND LOSSES IN BUYING TURKEYS ON A LIVE-PRICE BASIS



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## GAINS AND LOSSES IN BUYING TURKEYS ON A LIVE-PRICE BASIS 1/

The practice of buying turkeys from farmers on a ready-to-cook grade and yield basis is a more accurate method of valuing individual lots of turkeys than the traditional live, flock-run basis. But average differences in prices generally were small. Nevertheless, more and more turkey processors are adopting the ready-to-cook basis of buying because it assures farmers of a fair return on their birds. These are the principal conclusions of a preliminary study in Minnesota, Iowa, Wisconsin, and Virginia in the fall of 1957 comparing the values that buyers for 14 processors placed on 195 flocks of turkeys before processing with values determined on the basis of ready-to-cook grades and yields.

Of the 195 flocks, 101 were purchased on a live, flock-run basis. On 22 of these 101 flocks, records were obtained on buyers' estimates of expected yields and grades on each flock before slaughter. On 79 of the 101 flocks, records were available only of the average price paid. On the 94 flocks, purchased on the ready-to-cook basis, buyers estimated expected yields, grades, and live values before the birds were processed. For all flocks, data on the actual ready-to-cook yields, grades, and prices were obtained.

Buyers' estimates of expected yields and grades of turkeys purchased on a live, flock-run basis were obtained on 22 flocks before processing. These were compared with ready-to-cook yields and grades which were determined after processing. The results are shown in tables 13 and 14.

There was a slight tendency to underestimate yields on flocks with the larger average ready-to-cook yields and to overestimate the yields of flocks later found to have smaller yields. Among the 22 flocks, buyers estimated yields too high on 10 flocks and too low on 12. The error in percentage points ranged from only 0.2 to 5.4 points on the flocks on which yields were overestimated, and from 0.4 to 1.3 points on the flocks on which yields were underestimated.

Again there was a slight tendency toward overestimating the percentages of Grade A birds in the poorer quality flocks and to underestimate the gradeouts of the better flocks. Before processing, buyers overestimated the percentages of Grade A birds in 12 of the flocks and underestimated the gradeouts of 10 flocks. The error of overestimates ranged from only 0.2 point on one flock to 4.5 points on another. The error of underestimates ranged from 0.7 point to 4.0 points.

This apparent tendency to overvalue the poorer quality flocks and to undervalue the best lots of birds may be explained by: (1) The considerable competition among processors for turkeys -- some buyers deliberately erred in their valuations of some flocks so as to obtain the birds, and (2) buyers cannot estimate, on a live basis, ready-to-cook grades, yields, and values with full accuracy.

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Table 13.- Differences between buyers' estimates (made before processing) of ready-to-cook yields and actual yields from 22 flocks of turkeys, 1957

Actual yield 1/	Estimated yield higher than actual					
	Toms		Hens		Fryers	
	Average difference: Percentage points	Flocks	Average difference: Percentage points	Flocks	Average difference: Percentage points	Flocks
	Percent	Number	Percent	Number	Percent	Number
73 - 73.9 ...	---	---	---	---	5.43	1
78 - 78.9 ...	---	---	---	---	.56	1
79 - 79.9 ...	---	---	---	---	---	---
80 - 80.9 ...	1.62	1	.79	2	---	---
81 - 81.9 ...	.84	2	.79	2	---	---
82 - 82.9 ...	---	---	.19	1	---	---
Total ...	1.10	3	.67	5	2.99	2
	Estimated yield lower than actual					
	Average difference: Percentage points	Flocks	Average difference: Percentage points	Flocks	Average difference: Percentage points	Flocks
	Percent	Number	Percent	Number	Percent	Number
78 - 78.9 ...	---	---	---	---	.69	1
81 - 81.9 ...	---	---	.44	1	---	---
82 - 82.9 ...	1.33	2	.67	7	---	---
83 - 83.9 ...	.90	1	---	---	---	---
Total ...	1.19	3	.64	8	.69	1

1/ Ready-to-cook yield as a percentage of live weight.

Differences between buyers' estimates of yields and grades before processing and the actual grades and yields of the 94 flocks purchased on a ready-to-cook basis are similar to the differences for the 22 flocks shown in tables 13 and 14. Of the 94 flocks, yields were overestimated for 57 flocks and underestimated for 37 flocks. The error of overestimates ranged from 0.1 to 5.3 points. The error of underestimates ranged from 0.1 to 2.0 points. The largest differences occurred with turkey fryers, and buyers' estimates were on the high side, although all flocks were purchased on a ready-to-cook basis.

Of the 94 flocks, buyers estimated the percentage of Grade A birds too high for 53 flocks and too low for 41 flocks. The error of overestimates ranged from 0.3 to 9.6 points. The error of underestimates ranged from 1.3 to 3.9 points.

Table 14.- Differences between buyers' estimates (before processing) of percentage of birds in Grade A and actual percentage, 22 flocks of turkeys, 1957

Estimated percentage higher than actual						
Percentage in Grade A (gradeout)	Toms		Hens		Fryers	
	Average	Flocks	Average	Flocks	Average	Flocks
	difference:		difference:		difference:	
	Percentage points		Percentage points		Percentage points	
Percent		Number		Number		Number
75 - 79.9 ..	0.23	1	---	---	---	---
80 - 84.9 ..	4.51	2	1.51	1	---	---
85 - 89.9 ..	---	---	3.86	1	---	---
90 - 94.9 ..	---	---	1.37	5	2.30	1
95 and over :	---	---	---	---	.67	1
Total ...	3.09	3	1.75	7	1.48	2
Estimated percentage lower than actual						
80 - 84.9 ..	4.04	2	---	---	---	---
85 - 89.9 ..	---	---	---	---	---	---
90 - 94.9 ..	2.01	1	.66	3	2.73	1
95 and over :	---	---	3.68	3	---	---
Total ...	3.36	3	2.17	6	2.73	1

#### Average Flock-Run Prices and Computed Ready-To-Cook Prices

The judgment of buyers in estimating the yield and gradeout of live turkeys is reflected in the prices paid on a flock-run basis. Comparison of the flock-run prices with the computed ready-to-cook prices shows the following results: That buyers paid too much for 62 flocks, not enough for 27 flocks, and the correct amount for 12 flocks. The price differences ranged from less than 0.25 cent to more than 2.25 cents per pound on overpriced flocks and from less than 0.25 cent to more than 0.75 cent per pound on underpriced flocks. Price differences were less than 0.25 cent a pound on more than 40 percent of the 89 flocks (table 15).

Producers of the 62 flocks on which live prices were too high received \$7,034 more than receipts computed with ready-to-cook prices, or an average excess of 0.48 cent per pound. Producers of the 27 flocks on which live prices were too low received \$3,121 less than receipts computed with ready-to-cook prices, or an average shortage of 0.51 cent per pound (table 16).

Table 15.- Distribution of 89 flocks of turkeys by differences between live flock-run prices paid producers and computed values on a ready-to-cook basis, 1957 1/

Price difference <u>2/</u>	Live prices paid too high		Live prices paid too low	
	Distribution of flocks		Distribution of flocks	
Cents per pound	Number	Percent	Number	Percent
0 - .249 .....	28	45.2	11	40.8
.25 - .499 .....	9	14.5	6	22.2
.50 - .749 .....	11	17.7	5	18.5
.75 - .999 .....	4	6.5	5	18.5
1.00 - 1.249 .....	5	8.1	---	---
1.25 - 1.499 .....	2	3.2	---	---
1.50 - 1.749 .....	1	1.6	---	---
1.75 - 1.999 .....	1	1.6	---	---
2.25 - 2.499 .....	1	1.6	---	---
Total .....	62	100.0	27	100.0

1/ This table does not include data for 12 lots (with a packed weight of 237,078 pounds) for which the live prices were estimated correctly.

2/ Differences between live flock-run prices paid producers and computed values on a ready-to-cook basis.

Table 16.- Distribution of tonnage of 89 flocks of turkeys purchased and payments to producers by differences between live prices paid and computed values on a ready-to-cook basis, 1957

Price difference <u>1/</u>	Live prices paid too high		Live prices paid too low	
	Volume	Difference in payment <u>2/</u>	Volume	Difference in payment <u>2/</u>
Cents per pound	Pounds	Dollars	Pounds	Dollars
0 - .249 .....	570,915	533	271,223	423
.25 - .499 .....	310,684	1,587	81,779	388
.50 - .749 .....	332,352	2,729	103,246	704
.75 - .999 .....	75,542	715	157,486	1,606
1.00 - 1.249 .....	100,209	97	---	---
1.25 - 1.499 .....	46,745	216	---	---
1.50 - 1.749 .....	3,361	67	---	---
1.75 - 1.999 .....	17,794	480	---	---
2.25 - 2.499 .....	19,289	610	---	---
Total .....	1,476,891	7,034	612,734	3,121
Average price difference per pound :	0.476 cent		0.509 cent	

1/ Difference between live flock-run prices paid producers and computed values on a ready-to-cook basis.

2/ Difference between payment producers received and payment that would have been received if purchases had been made on a ready-to-cook basis.

It is evident from the information given in this preliminary report that the buyers in this study did considerable guessing in buying on an average flock-run price. Since the grower cannot know in advance what the estimate will be, he definitely takes a chance of gaining or losing when selling on an average flock-run price. The same applies to the processor only in reverse order.

Discussion of the comparative advantages of the two buying methods with the 14 processors revealed that nearly all of them preferred to buy on a ready-to-cook grade and yield basis. They stated that it was fair to both the grower and to the processor. A few processors even said "that they had lost so much money in buying on a flock-run basis that they could not afford to do business that way."

A survey of 32 randomly selected turkey growers in Minnesota and Wisconsin revealed that 27 preferred to sell turkeys on a ready-to-cook grade and yield basis, 3 preferred to sell at a flock-run average price, and 2 were undecided which method they liked best. Many of the growers stated that the ready-to-cook basis was the only fair way to sell, that there was no averaging of prices paid for good and poor flocks, and that each grower was paid what his birds were worth. Some of these growers had been selling on a grade and yield basis for 10 years. On the other hand, two of the growers who preferred to sell on a live, flock-run basis claimed they had not received fair treatment from the processors, and that too many birds were condemned or downgraded.

